INTRODUCTORY SECTION

State of North Carolina

Office of the State Controller

NELS C. ROSELAND
STATE CONTROLLER

December 5, 2022

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Citizens of North Carolina

In compliance with G.S. 143B-426.40H, it is our pleasure to provide you with the State of North Carolina's 2022 Annual Comprehensive Financial Report (ACFR). This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143B-426.40H requires the Office of the State Controller to prepare a Comprehensive Annual Financial Report, which is now termed Annual Comprehensive Financial Report (ACFR) with the implementation of GASB Statement 98, *The Annual Comprehensive Financial Report*, in accordance with generally accepted accounting principles (GAAP) in the United States of America. Except for schedules clearly labeled otherwise, this ACFR has been prepared in accordance with GAAP.

North Carolina's State government management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

In compliance with North Carolina's General Statutes, an annual financial audit of the State financial reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Auditor's opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

This letter of transmittal is intended to complement the management's discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, the MD&A focuses on the State's major funds: the General Fund, the Highway Fund, the Highway Trust Fund, the Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. Turnpike Authority, and the N.C. State Lottery Fund. The MD&A can be found immediately following the independent auditor's report.

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Profile of the State of North Carolina

The Old North State, The Tar Heel State

North Carolina became the 12th state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee, and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 10.6 million, making it the 9th most populated state in the nation. Ninety-four percent of the State's population lives in metropolitan areas. The North Carolina coastline is 301 miles, the greatest distance east to west is 543 miles, and the greatest distance north to south is 188 miles. The State's elevation rises from sea level on the eastern coastline to 6,684 feet at Mount Mitchell in the Appalachian mountain range on the western border. There are 80,318 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 77, 85, and 95 crossing the State north to south. North Carolina's capital and central state government administration is located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

North Carolina is ranked number one by *Site Selection* and *CNBC* magazines for doing business while *Chief Executive* magazine ranked North Carolina fifth for best state for doing business.

Government

North Carolina's state government consists of an executive branch, a legislative branch, and a judicial branch. The executive branch is headed by the Governor. The Governor, Lieutenant Governor, and eight other statewide elected officers form the Council of State. The State Constitution provides that, "A Secretary of State, an Auditor, a Treasurer, a Superintendent of Public Instruction, an Attorney General, a Commissioner of Agriculture, a Commissioner of Labor, and a Commissioner of Insurance shall be elected by the qualified voters of the State…." All administrative departments, agencies, and offices of the State and their respective functions, powers, and duties shall be allocated by law among and within not more than 25 principal administrative departments.

The legislative power of the State is vested in the General Assembly, which consists of a Senate and a House of Representatives. The Senate is composed of 50 Senators, elected on a biennial basis. The House of Representatives is composed of 120 Representatives, elected on a biennial basis.

The Courts of the Judicial Branch are split into three divisions, the Appellate Division, the Superior Court Division, and the District Court Division. Judges are elected on a non-partisan basis.

State Reporting Entity and Its Services

The State of North Carolina entity as reported in the ACFR includes all fund types of the departments, agencies, boards, commissions, and authorities governed and legally controlled by the State's executive, legislative, and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System, the State's community colleges, and the State Health Plan. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1, Summary of Significant Accounting Policies, of the accompanying financial statements.

The State and its component units provide a broad range of services to its citizens, including primary and secondary education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The costs of these services are reflected in detail and in summary in this report.

Budgetary Control

In addition to internal controls discussed previously, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund, departmental special revenue funds, and permanent funds are included in the annual appropriated budget. The Highway Fund and the Highway Trust Fund, the State's major special revenue funds, are primarily budgeted on a multi-year basis. Capital projects are funded and planned in accordance with the time it will take to complete the project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is exercised at both the departmental and university level, with allotment compliance exercised by the State Controller, and on the program line-item levels requiring certain approvals by the Director of the Budget. Legislative authorization of departmental expenditures appears in the State Appropriations Bill. The budget approved by the General Assembly is the legal expenditure authority; however, the Office of State Budget and Management may approve executive changes to the legal budget as allowed by law. These changes result in the final budget presented in the required supplementary information.

Economic Condition

Overview

At the start of fiscal year 2021-22, broad measures of employment and economic activity demonstrated that North Carolina’s economy had largely recovered from the depths of the recession induced by the COVID-19 pandemic and transitioned into the expansion phase of the business cycle. The State’s economy fared well during the fiscal year, recovering more rapidly than the nation as a whole and showing increasing resilience to the recurring waves of COVID-19 infections. However, as the year went on, persistently high inflation began to displace COVID-19 transmission rates as the predominant economic headline, provoking an aggressive monetary policy response and broadly shaping public perception of the ongoing state of the economy.

Early in the fiscal year, inflationary pressures were limited to a few specific categories of consumer goods and services, particularly those most affected by pandemic restrictions and supply chain disruptions. During fiscal year 2021-22, price increases became widespread as demand outstripped supply across a broad range of goods and services. Worker shortages and lingering pandemic-related disruptions to supply chains limited production capacity, while surplus savings resulting from federal pandemic-related fiscal support, along with reduced spending due to social distancing, continued to fuel demand. Russia’s invasion of Ukraine in February 2022 disrupted energy markets and commodity exports, causing additional price pressures to emerge. By the end of the fiscal year, in June 2022, consumer price inflation had soared to 9.1%, marking the largest year-over-year increase since November 1981.

In response to unacceptably high and persistent inflation, the Federal Reserve began tightening monetary policy during the latter part of the fiscal year. The Federal Reserve is expected to continue to aggressively tighten monetary policy into the second half of fiscal year 2022-23.

Projections of key economic indicators illustrate how the economy is expected to unfold during the next two fiscal years (fiscal years 2022-23 and 2023-24, or the “forecast period”) at the time of this writing. This forecast assumes that tightening monetary policy will successfully restore price stability and achieve a so-called “soft landing”, effectively slowing economic growth without triggering an outright recession. However, the economy is vulnerable, and the risk of a recession during the forecast period is elevated. In the current environment, aggressive tightening of monetary policy increases this risk.

Economic Indicators

	FY 2020-21 Actual	FY 2021-22 Actual	FY 2022-23 Projected	FY 2023-24 Projected
United States Indicators				
Real Gross Domestic Product Growth	2.3%	4.0%	0.6%	1.5%
Personal Income Growth	7.6%	2.8%	4.9%	5.1%
Corporate Pre-Tax Profit Growth	12.2%	13.7%	3.4%	1.3%
Retail Sales Growth	13.7%	13.2%	5.9%	2.5%
Average Unemployment Rate	6.9%	4.2%	3.7%	4.0%
Average Consumer Price Index Growth	2.3%	7.2%	6.3%	2.6%
Average 30-yr Fixed Mortgage Interest Rate	2.9%	3.8%	6.3%	6.2%
North Carolina Indicators				
Real Gross State Product Growth	3.8%	5.1%	1.5%	1.9%
Personal Income Growth	8.2%	4.7%	5.0%	4.8%
Wages and Salaries Growth	6.4%	11.7%	8.2%	5.8%
Retail Sales Growth	17.4%	11.4%	6.0%	4.4%
Average Unemployment Rate	5.9%	4.0%	3.5%	4.0%
Nonfarm Employment Growth	7.6%	3.4%	2.1%	1.0%

In fiscal year 2021-22, real gross domestic product (GDP), a broad measure of economic activity, grew by 4.0 percent nationally, while North Carolina's real gross state product (GSP) grew by 5.1 percent. After surpassing its pre-recession peak last fiscal year, US GDP continued to grow during the first half of the fiscal year and then contracted mildly for the last two quarters of the fiscal year. Despite two consecutive quarters of negative growth, US GDP in the last quarter of the fiscal year was 1.8 percent higher than in the last quarter of fiscal year 2020-21 and 3.5 percent above its pre-pandemic peak.

North Carolina's GSP had also eclipsed its pre-recession peak by the end of fiscal year 2020-21. The State's economy grew more quickly than the national economy during the first three quarters of fiscal year 2021-22 and, like the national economy, contracted mildly in the last quarter of the fiscal year. GSP ended the fiscal year 3.4 percent above the last quarter of fiscal year 2020-21 and 7.2 percent above its pre-pandemic peak. Over the forecast period, absent a recession, both the national and State economies are expected to grow slowly, with the State's economy continuing to expand at a faster pace than that of the nation.

After mounting an especially robust recovery in fiscal year 2020-21, US corporate profits again produced double-digit growth in fiscal year 2021-22. In the last quarter of the fiscal year, post-tax corporate profits as a share of GDP reached a 70-year high. Profitability growth is expected to slow significantly in tandem with the overall slowing of the economy.

Nonfarm employment in North Carolina, which fell by 558,500 during the pandemic-induced recession, rebounded significantly by July 2021 and continued to improve thereafter. At the start of the fiscal year, North Carolina became one of the first states to return to its pre-pandemic employment level. From June 2021 to June 2022, the State's economy went on to gain 155,200 nonfarm jobs (3.4%), exceeding employment in February 2020, prior to the pandemic, by 136,900 (3.0%). This stands in contrast to the nation, where employment remained below pre-pandemic levels at the end of the fiscal year and did not fully recover until more than a year after the State.

In North Carolina, jobs were added over the fiscal year in all major industries except government, which lost 7,100 jobs. The largest increase was in professional and business services (49,300 jobs). The leisure and hospitality sector, hardest hit during the pandemic, added 34,600 jobs during the fiscal year. Preliminary figures indicate that employment in this sector had nearly reached its pre-pandemic level as of September 2022. Job growth in the State is expected to slow considerably during the forecast period, adding around 100,000 jobs in fiscal year 2022-23 and another 50,000 in fiscal year 2023-24.

For most of the fiscal year, the labor market was very tight, with unemployment rates at both the State and national level approaching historic lows. By June 2022, the State unemployment rate was just below its pre-pandemic rate, while the US rate remained slightly above its pre-pandemic rate. The State unemployment rate declined from 4.9 percent at the start of the fiscal year to 3.4 percent in June 2022, averaging 4.0 percent for the fiscal year. At the end of the fiscal year, there were nearly twice as many job openings as job seekers in North Carolina, and employers struggled to fill vacancies. With so many job openings and a backlog of work, the unemployment rate is expected to remain low despite slowing growth. The State unemployment rate is expected to track the national rate closely, slowly increasing to 4.1 percent in the latter half of fiscal year 2023-24.

In response to the tight labor market, wage and salary income growth was remarkably strong in the State, increasing 11.7 percent – nearly double the growth rate in the previous fiscal year. Wage growth in the US fared similarly, rising by 10.3 percent. These exceptional growth rates represent the highest wage increases since the early 1980s, which also came during a period of high inflation. Notably, wage growth, which makes up more than half of total personal income and closely mirrors its growth under ordinary circumstances, outpaced personal income growth by a wide margin this fiscal year. Diminishing government transfer payments from federal pandemic relief and other programs, which bolstered personal income in fiscal year 2020-21, accounted for the relatively weak personal income growth in the State (4.7%) and nationally (2.8%) in fiscal year 2021-22.

Personal income is expected to grow slightly faster than average over the next two fiscal years. While the cooling labor market is expected to slow wage growth in fiscal year 2022-23 relative to the extraordinary growth in fiscal year 2021-22, projections show NC will maintain solid wage increases during the forecast period and continue to outpace the nation. State personal income growth is expected to remain steady in fiscal year 2022-23, roughly matching US growth, before slowing in fiscal year 2023-24.

After posting impressive gains last fiscal year, retail sales in the State and the US remained robust as consumers spent down the savings accumulated during the pandemic. However, unlike the previous fiscal year, much of this growth was price-driven. Over the next two fiscal years, rising prices are expected to dampen demand as consumers deplete surplus savings and gradually revert to typical pre-pandemic spending patterns. In addition, this forecast predicts continued inflation will erode nominal retail sales gains, flattening real growth during the forecast period.

Mortgage rates skyrocketed to 5.7 percent by the end of the fiscal year after remaining below 3 percent for most of fiscal year 2020-21. House prices in North Carolina surged over the last two fiscal years, increasing 44 percent since the end of fiscal year 2019-20. This dramatic increase was more than twice the growth rate of prices in the US housing market over the same two-year period. Despite rising rates, North Carolina house prices increased by over 25 percent during the fiscal year. Mortgage rates are expected to remain high as the Federal Reserve continues to tighten monetary policy, weakening demand and leading to declines in prices over the next two years.

Emma Turner, PhD, Chief Economist
NC General Assembly Fiscal Research Division

Long-Term Financial Planning and Major Initiatives

North Carolina Pension Funds

The North Carolina Retirement System administers four major retirement systems and several smaller systems and pension funds. The largest of the major retirement systems is the Teachers' and State Employees' Retirement System (TSERS).

Funding the Retirement Systems is a shared responsibility among employees, employers, and the Department of State Treasurer through investment earnings. Effective July 1, 2021, the State established an employer contribution rate of 16.38% of compensation for TSERS. This rate is the rate recommended by the TSERS Board of Trustees using the Employer Contribution Rate Stabilization Policy (ECRSP).

The ECRSP was established in 2016 as a mechanism for the Board of Trustees to use for making recommendations to the General Assembly for employer contribution rates for TSERS. A new version of ECRSP was adopted in April 2021 extending the essential provisions of ECRSP and adding clarifications. This policy establishes a procedure for determining the employer contribution rates for TSERS that the TSERS Board of Trustees will recommend to the General Assembly for fiscal years ending through June 30, 2027.

With the ECRSP, the Board will recommend to the General Assembly an employer contribution rate that is no less than 0.35% of payroll greater than the appropriated contribution (ADC) rate from the prior fiscal year, within the following bounds: 1) contributions may not be less than the ADC rate prior to applying the ECRSP; and 2) the 0.35% increase may not cause contributions greater than the ADC determined using the assumptions adopted but using a discount rate equal to the yield on 30-year United States Treasury securities as of the valuation date.

Retiree Health Benefits

Legislation passed during the 2017 Legislative Session will close the Retiree Health Benefit Trust. Members hired on or after January 1, 2021, are not eligible to receive retiree medical benefits. Under this legislation, retirees must have earned contributory retirement service in a state retirement system prior to January 1, 2021, and must not have withdrawn from service, to be eligible for retiree medical benefits.

Unfunded Liability Solvency Reserve

Session Law 2018-30 created the Unfunded Liability Solvency Reserve (Solvency Reserve) within the State's General Fund. The purpose is to accumulate funds during each fiscal year to be used in the following fiscal year to reduce the unfunded liabilities associated with TSERS and the Retiree Health Benefit Fund (RHBF). The Solvency Reserve will receive funds specifically designated by the General Assembly. To the extent the Savings Reserve has reached its statutory maximum, the Solvency Reserve will receive amounts with respect to the revenue growth transfer and debt refinancing savings that otherwise would have gone to the Savings Reserve. TSERS and RHBF will receive an annual share of the Solvency Reserve's balance, if any, in proportion to each plan's unfunded liability. During the last fiscal year the Solvency Reserve received its first direct appropriations from the General Fund. Forty million dollars was appropriated in fiscal year 2022 and $10 million in fiscal year 2023. Two million dollars was transferred to TSERS and $8.4 million was transferred to RHBF from the Solvency Reserve in fiscal year 2022.

Enterprise Resource Planning (ERP)

The North Carolina General Assembly allocated funds during the 2017-2019 biennium to continue to develop a fully consolidated statewide Enterprise Resource Planning (ERP) solution. To date, the State has implemented Release One, the replacement of the Cash Management Control System (CMCS), on April 5, 2021, and Release Two, implementation of new Oracle SmartView tools for compiling the State's ACFR, on July 28, 2021. Through fiscal year ended June 2021, project spending has amounted to approximately $46 million out of the $90 million appropriated. The project team has completed about 90% of the development phase and is preparing to move into System Integration and User Acceptance testing for Release Three, the replacement of the North Carolina Accounting System (NCAS), scheduled to go-live October 2023.

Relevant Financial Policies

Savings Reserve

Session Law 2017-5 amended General Statute 143C-4-2 creating the Savings Reserve in the General Fund. The Reserve is a component of the unappropriated General Fund balance. Funds in the Savings Reserve shall be available for expenditure in an aggregate amount that does not exceed seven and one-half percent (7.5%) of the prior fiscal year's General Fund operating budget appropriations, excluding departmental receipts, upon appropriation by a majority vote of the membership of the Senate and the House of Representatives present and voting for the following purposes: 1) to cover a decline in General Fund tax revenue from one fiscal year to another, 2) to cover the difference between that fiscal year's General Fund operating budget appropriations, excluding receipts and projected revenue, 3) to pay costs imposed by a court or administrative order, or 4) to provide relief and assistance from the effects of an emergency. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies.

Each year the Office of State Budget and Management along with the Fiscal Research Division of the General Assembly shall jointly determine the adequacy of the Savings Reserve, based on the volatility of the State's tax structure and determine a target for the Savings Reserve, so as to be sufficient to cover two years of need for nine out of ten scenarios involving a decline in General Fund revenue from one fiscal year to the next. In 2022, the Office of State Budget and Management along with the Fiscal Research Division of the General Assembly recommended a target of 11.2% of the prior fiscal year's General Fund operating budget appropriations. At June 30, 2022, the Savings Reserve was $3.116 billion, which represents 12.72% of the prior year's General Fund appropriation budget.

At the beginning of fiscal year 2021-22, the balance of the Savings Reserve Account was $1.982 billion. Session Law 2021-180 authorized the transfer of $1.134 billion from the Unreserved Fund Balance to the Savings Reserve leaving a balance in the Savings Reserve at fiscal year-end of $3.116 billion.

State Capital and Infrastructure Fund

The 2017 General Assembly established the State Capital and Infrastructure Fund (SCIF), effective July 1, 2019. This replaces the Repairs and Renovations Reserve Account. The General Assembly recognized the need to establish and maintain a sufficient funding source to address the ongoing capital and infrastructure needs of the State. The Fund shall consist of 1) one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of the fiscal year; 2) four percent of the net State tax revenues that are deposited in the General Fund during the fiscal year; 3) all monies appropriated by the General Assembly for the purposes of capital improvements; 4) all interest and investment earnings received on monies in the Fund; and 5) any other funds as directed by the General Assembly.

Session Law 2021-180 appropriated $3.66 billion to the SCIF fund in fiscal year 2021-22, with an additional planned appropriation of $2.40 billion for fiscal year 2022-23. Session Law 2022-74 increased the appropriation for fiscal year 2022-23 to $3.18 billion. For fiscal year 2021-22, all but $12.5 million was appropriated to support General Fund debt service, state agency and university capital projects, community college projects, grants in aid to local governments, and grants in aid to non-profits. Session Law 2022-74 appropriated all but $500.9 million of funds from the SCIF and appropriated funds largely for the same purposes. Session Law 2022-74 changed the General Fund statutory contribution to the SCIF from four percent of General Fund revenue to a set amount each year from fiscal year 2023-24 to fiscal year 2025-26. The contribution will grow by 3.5% each year after fiscal year 2025-26.

Connect NC Bond Act Amendment

Session Law 2021-180 modified the Connect NC Bond Act (S.L. 2015-280) to limit the aggregate principal to be issued to $1.6 billion (the amount previously issued). The remaining funds needed to complete projects under the Connect NC Bond Act ($400 million) will be provided by an appropriation and available premium funds from earlier issues.

Justification & Expected Long-term benefits of Tax Abatements

The Jobs Development Investment Grant (JDIG Program) is a performance-based economic development incentive program that provides annual grant disbursements for a period of up to twelve years, to new and expanding businesses based on a percentage of withholding taxes paid by new employees during each calendar year of the grant. In adopting the JDIG Program in the 2001-2002 Session, the General Assembly intended "to stimulate economic activity and to create new jobs for the citizens of the State by encouraging and promoting the expansion of existing business and industry within the State and by recruiting and attracting new business and industry to the State." The long-term benefits to the state of North Carolina generated by the fiscal year 2021-22 grant payments include 1) the creation of 20,180 jobs, 2) capital investment of $3.15 billion, and 3) $9.16 million contributed to the Utility Fund for infrastructure grants to rural counties.

Due to the Covid-19 pandemic, the Economic Investment Committee offered Compliance Relief for JDIG recipients. Grantees could request all obligations associated with the grant carried forward one year and/or request that Project Employees working from home-office locations within North Carolina be considered employed at the Project Facility with respect to grant years 2020 and 2021. There were 37 grantees that requested the carryforward, 40 requested both carry forward and home office locations and 25 requested office locations.

2020 COVID-19 Recovery Act and State Fiscal Recovery Reserve and State Fiscal Recovery Fund

The 2020 COVID-19 Recovery Act (Act) (Session Law 2020-4) authorized the Office of the State Controller to establish the Coronavirus Relief Reserve in the General Fund to maintain funds received from the federal government through the Coronavirus Relief Fund created under the CARES Act, P.L. 116-136, to mitigate the impact of the COVID-19 outbreak in North Carolina. Additionally, the Act established the Coronavirus Relief Fund to provide necessary and appropriate relief and assistance from the effects of COVID-19. The special fund is administered by the Office of State Budget and Management. Subsequent legislation (Session Law 2020-32, Session Law 2020-53, and Session Law 2020-80) authorized additional spending of the Coronavirus Relief funds received from the CARES Act. The State of North Carolina received $3.59 billion directly from the federal government from the CARES Act in fiscal year 2020. By December 31, 2021 $3.59 billion had been spent on COVID-19 relief.

In addition, in response to the Coronavirus pandemic, Session Law 2021-25 was signed into law on May 24, 2021. This bill created the State Fiscal Recovery Reserve and State Fiscal Recovery Fund (SFRF) to manage federal funds received from the federal government under the American Rescue Plan Act (ARPA) of 2021, P.L.117-2. North Carolina received $5.4 billion in federal funds from ARPA for the SFRF. At June 30, 2022, $1.23 billion had been spent on COVID-19 relief and $4.21 billion was reported as unearned revenue.

Debt Affordability Guidelines

The 2004 General Assembly passed legislation creating the Debt Affordability Advisory Committee. The Committee is charged, on an annual basis, with advising the Governor and the General Assembly of the estimated debt capacity of the State for the upcoming ten fiscal years. The Committee is also required to recommend other debt management policies consistent with sound management of the State's debt. The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State's debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year.

The Committee has adopted the ratio of debt service as a percentage of revenues as the controlling metric that determines the State's debt capacity. The 2022 study indicated over the ten-year planning horizon the State's revenue projections show a positive growth trend not excessively impacted from earlier declines in economic activity caused by the COVID-19 pandemic. The study found that the State's General Fund has debt capacity of $1.416 billion in each of the next ten years after incorporating the Committee's policy that directs resources to the Unfunded Liability Solvency Reserve to begin addressing the unfunded pension and OPEB liabilities. The ratio of debt service to revenues was projected to peak at 2.4% in fiscal year 2022. This rate is below the 4% target.

The following target and ceiling guidelines are the basis for calculating the recommended amount of General Fund-supported debt the State could prudently authorize and issue over the next ten years:

1. Net Tax-Supported Debt service after a continuing appropriation of $100 million to the Solvency Fund as a percentage of General Tax Revenues should be targeted at no more than 4% and not to exceed 4.75%;
2. Net Tax-Supported Debt as a percentage of personal income should be targeted at no more than 2.5% and not exceed 3%; and
3. The amount of debt to be retired over the next ten years should be targeted at no less than 55% and not decline below 50%.

North Carolina's debt is considered manageable at current levels when compared with its peer group composed of twelve other states rated "triple-A."

Awards and Acknowledgements

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2021. This was the 28th consecutive year (1994 to 2021) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgments

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our gratitude to all the financial officers throughout the State and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this report should be directed to the Office of the State Controller at (919) 707-0500.

Respectfully submitted,

Nels C. Roseland
State Controller

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CERTIFICATE OF ACHIEVEMENT

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of North Carolina

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Executive Director/CEO